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## 2009 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors of China Pharmaceutical Group Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2009.

### CONDENSED CONSOLIDATED INCOME STATEMENT

|  | <i>Notes</i> | <b>For the six months ended 30 June</b> |                        |
|--|--------------|---|------------------------|
|  |              | <b>2009</b>                             | <b>2008</b>            |
|  |              | <b><i>HK\$'000</i></b>                  | <b><i>HK\$'000</i></b> |
|  |              | <b>(Unaudited)</b>                      | <b>(Unaudited)</b>     |
| Revenue  | 3            | <b>3,502,908</b>                        | 3,295,903              |
| Cost of sales  |              | <b>(2,330,866)</b>                      | (2,214,700)            |
| Gross profit   |              | <b>1,172,042</b>                        | 1,081,203              |
| Other income   |              | <b>16,553</b>                           | 27,204                 |
| Selling and distribution expenses                        |              | <b>(299,903)</b>                        | (190,772)              |
| Administrative expenses                                  |              | <b>(216,246)</b>                        | (243,259)              |
| Other expenses   |              | <b>(27,855)</b>                         | (74,791)               |
| Operating profit   |              | <b>644,591</b>                          | 599,585                |
| Share of results of a jointly controlled entity          |              | <b>322</b>                              | 1,108                  |
| Share of results of an associate                         |              | —                                       | 1,362                  |
| Gain on termination of a derivative financial instrument |              | —                                       | 6,851                  |
| Finance costs  |              | <b>(35,596)</b>                         | (57,737)               |
| Profit before tax  | 4            | <b>609,317</b>                          | 551,169                |
| Income tax expense                                       | 5            | <b>(72,049)</b>                         | (105,586)              |
| Profit for the period                                    |              | <b>537,268</b>                          | 445,583                |

|  | <b>For the six months<br/>ended 30 June</b> |                        |
|--|---|------------------------|
|  | <b>2009</b>                                 | <b>2008</b>            |
| <i>Notes</i>                           | <b><i>HK\$'000</i></b>                      | <b><i>HK\$'000</i></b> |
|  | <b>(Unaudited)</b>                          | <b>(Unaudited)</b>     |
| Profit for the period attributable to: |   |                        |
| Owners of the Company                  | <b>532,710</b>                              | 443,952                |
| Minority interests                     | <b>4,558</b>                                | 1,631                  |
|  | <u><b>537,268</b></u>                       | <u>445,583</u>         |
|  | <b><i>HK cents</i></b>                      | <b><i>HK cents</i></b> |
| Earnings per share — Basic             | <u><b>34.71</b></u>                         | <u>28.86</u>           |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|  |   | As at<br><b>30 June</b><br><b>2009</b><br><i>Notes</i><br><b>HK\$'000</b><br><b>(Unaudited)</b> | As at<br>31 December<br>2008<br><i>HK\$'000</i><br><b>(Audited)</b> |
|--|---|---|---|
| <b>Non-current assets</b>                      |   |   |   |
| Property, plant and equipment                  |   | 3,633,929   | 3,781,309   |
| Prepaid lease payments                         |   | 184,387   | 198,524   |
| Intangible assets                              |   | 71,192  | 89,333  |
| Goodwill                                       |   | 110,914   | 106,753   |
| Interest in a jointly controlled entity        |   | 23,263  | 22,941  |
| Available-for-sale investment                  |   | 12,889  | 5,307   |
| Pledged bank deposits                          |   | 584   | 2,048   |
| Deposit paid for acquisition of a business     |   | 79,545  | —   |
|  |   | <b>4,116,703</b>  | <b>4,206,215</b>  |
| <b>Current assets</b>                          |   |   |   |
| Inventories                                    |   | 1,101,961   | 1,324,711   |
| Trade and other receivables                    | 8 | 1,100,604   | 908,094   |
| Bills receivables                              | 8 | 444,917   | 297,382   |
| Prepaid lease payments                         |   | 5,262   | 6,149   |
| Tax recoverable                                |   | 7,080   | 3,246   |
| Trade receivables due from a connected company |   | 36,792  | 23,063  |
| Amount due from a jointly controlled entity    |   | 12,201  | 13,484  |
| Pledged bank deposits                          |   | 37,034  | —   |
| Bank balances and cash                         |   | 1,578,490   | 1,121,062   |
|  |   | <b>4,324,341</b>  | <b>3,697,191</b>  |
| Assets classified as held for sale             | 9 | <b>215,680</b>  | —   |
|  |   | <b>4,540,021</b>  | <b>3,697,191</b>  |

|  |    | As at<br>30 June<br>2009<br>HK\$'000<br>(Unaudited) | As at<br>31 December<br>2008<br>HK\$'000<br>(Audited) |
|--|----|---|---|
| <b>Current liabilities</b>                                     |    |   |   |
| Trade and other payables                                       | 10 | 1,369,259   | 1,403,365   |
| Bills payables   | 10 | 451,136   | 253,409   |
| Trade payables due to a related company                        |    | 3,967   | 17,711  |
| Amount due to immediate holding company                        |    | 156,696   | —   |
| Amounts due to related companies                               |    | 17,315  | 14,375  |
| Tax liabilities  |    | 87,461  | 120,216   |
| Unsecured bank loans   |    | 922,209   | 568,636   |
| Loans from a related company                                   |    | —   | 8,382   |
|  |    | <u>3,008,043</u>                                    | <u>2,386,094</u>                                      |
| Liabilities associated with assets classified as held for sale | 9  | <u>27,851</u>                                       | <u>—</u>  |
|  |    | <u>3,035,894</u>                                    | <u>2,386,094</u>                                      |
| Net current assets   |    | <u>1,504,127</u>                                    | <u>1,311,097</u>                                      |
| Total assets less current liabilities                          |    | <u>5,620,830</u>                                    | <u>5,517,312</u>                                      |
| <b>Non-current liabilities</b>                                 |    |   |   |
| Unsecured bank loans   |    | 781,964   | 804,991   |
| Loan from a related company                                    |    | —   | 113,636   |
| Deferred tax liabilities                                       |    | 23,880  | 15,490  |
|  |    | <u>805,844</u>                                      | <u>934,117</u>  |
| Net assets   |    | <u>4,814,986</u>                                    | <u>4,583,195</u>                                      |
| <b>Capital and reserves</b>                                    |    |   |   |
| Share capital  |    | 153,496   | 153,496   |
| Reserves   |    | 4,577,182   | 4,343,882   |
| Equity attributable to owners of the Company                   |    | <u>4,730,678</u>                                    | <u>4,497,378</u>                                      |
| Minority interests   |    | <u>84,308</u>                                       | <u>85,817</u>   |
| Total equity   |    | <u>4,814,986</u>                                    | <u>4,583,195</u>                                      |

Notes:

## **1. Basis of preparation**

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

## **2. Principal accounting policies**

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2008.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 January 2009.

HKAS 1 (Revised 2007) “Presentation of Financial Statements” has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements and has resulted in a number of changes in presentation and disclosure.

HKFRS 8 “Operating Segments” is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS 14 “Segment Reporting”, required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group’s reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group’s reportable segments as compared with the reportable segments determined in accordance with HKAS 14.

The adoption of the new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

### 3. Segmental information

The following is an analysis of the Group's revenue and results by operating segment for the period under review:

#### For the six months ended 30 June 2009 (Unaudited)

|   | Intermediates and Bulk Drugs |                      |                         | Finished<br>Drugs | Others          | Eliminations     | Consolidated     |
|---|------------------------------|----------------------|-------------------------|-------------------|-----------------|------------------|------------------|
|   | Vitamin C<br>series          | Penicillin<br>series | Cephalosporin<br>series |                   |                 |                  |                  |
|   | <i>HK\$'000</i>              | <i>HK\$'000</i>      | <i>HK\$'000</i>         | <i>HK\$'000</i>   | <i>HK\$'000</i> | <i>HK\$'000</i>  | <i>HK\$'000</i>  |
| REVENUE   |                              |                      |                         |                   |                 |                  |                  |
| External sales  | 1,230,307                    | 801,180              | 366,338                 | 1,070,149         | 34,934          | —                | 3,502,908        |
| Inter-segment sales   | 2,839                        | 200,217              | 149,500                 | —                 | 273             | (352,829)        | —                |
| TOTAL REVENUE   | <u>1,233,146</u>             | <u>1,001,397</u>     | <u>515,838</u>          | <u>1,070,149</u>  | <u>35,207</u>   | <u>(352,829)</u> | <u>3,502,908</u> |
| Inter-segment sales are charged at prevailing market rates. |                              |                      |                         |                   |                 |                  |                  |
| SEGMENT PROFIT (LOSS)                                       | <u>668,035</u>               | <u>(27,708)</u>      | <u>8,780</u>            | <u>62,485</u>     | <u>1,455</u>    |                  | 713,047          |
| Unallocated income  |                              |                      |                         |                   |                 |                  | 4,359            |
| Unallocated central costs                                   |                              |                      |                         |                   |                 |                  | (72,815)         |
| Operating profit  |                              |                      |                         |                   |                 |                  | 644,591          |
| Share of results of a jointly<br>controlled entity          |                              |                      |                         |                   |                 |                  | 322              |
| Finance costs   |                              |                      |                         |                   |                 |                  | (35,596)         |
| Profit before tax   |                              |                      |                         |                   |                 |                  | 609,317          |
| Income tax expense  |                              |                      |                         |                   |                 |                  | (72,049)         |
| Profit for the period                                       |                              |                      |                         |                   |                 |                  | <u>537,268</u>   |

**For the six months ended 30 June 2008 (Unaudited)**

|                     | Intermediates and Bulk Drugs |                      |                         | Finished<br>Drugs | Others          | Eliminations     | Consolidated     |
|---------------------|------------------------------|----------------------|-------------------------|-------------------|-----------------|------------------|------------------|
|                     | Vitamin C<br>series          | Penicillin<br>series | Cephalosporin<br>series |                   |                 |                  |                  |
|                     | <i>HK\$'000</i>              | <i>HK\$'000</i>      | <i>HK\$'000</i>         | <i>HK\$'000</i>   | <i>HK\$'000</i> | <i>HK\$'000</i>  | <i>HK\$'000</i>  |
| REVENUE             |                              |                      |                         |                   |                 |                  |                  |
| External sales      | 892,728                      | 1,068,635            | 342,079                 | 959,380           | 33,081          | —                | 3,295,903        |
| Inter-segment sales | <u>777</u>                   | <u>292,835</u>       | <u>89,175</u>           | <u>—</u>          | <u>914</u>      | <u>(383,701)</u> | <u>—</u>         |
| TOTAL REVENUE       | <u>893,505</u>               | <u>1,361,470</u>     | <u>431,254</u>          | <u>959,380</u>    | <u>33,995</u>   | <u>(383,701)</u> | <u>3,295,903</u> |

Inter-segment sales are charged at prevailing market rates.

|  |                |                |                |               |              |  |                  |
|--|----------------|----------------|----------------|---------------|--------------|--|------------------|
| SEGMENT PROFIT (LOSS)  | <u>365,894</u> | <u>177,144</u> | <u>(2,635)</u> | <u>69,706</u> | <u>1,950</u> |  | 612,059          |
| Unallocated income   |                |                |                |               |              |  | 2,310            |
| Unallocated central costs                                      |                |                |                |               |              |  | <u>(14,784)</u>  |
| Operating profit   |                |                |                |               |              |  | 599,585          |
| Share of results of a jointly<br>controlled entity             |                |                |                |               |              |  | 1,108            |
| Share of results of an associate                               |                |                |                |               |              |  | 1,362            |
| Gain on termination of<br>a derivative financial<br>instrument |                |                |                |               |              |  | 6,851            |
| Finance costs  |                |                |                |               |              |  | <u>(57,737)</u>  |
| Profit before tax  |                |                |                |               |              |  | 551,169          |
| Income tax expense   |                |                |                |               |              |  | <u>(105,586)</u> |
| Profit for the period  |                |                |                |               |              |  | <u>445,583</u>   |

Segment profit (loss) represents the profit (loss) earned by each segment without allocation of central administration costs, central advertising costs, share of results of a jointly controlled entity and an associate and finance costs. This is the measure reported to the board of directors for the purposes of resource allocation and performance assessment.

The following is an analysis of the Group's revenue by geographical market based on the geographical location of customers for the period under review:

|  | <b>For the six months<br/>ended 30 June</b> |                         |
|--|---|-------------------------|
|  | <b>2009</b>                                 | <b>2008</b>             |
|  | <b>HK\$'000</b>                             | <b>HK\$'000</b>         |
|  | <b>(Unaudited)</b>                          | <b>(Unaudited)</b>      |
| The People's Republic of China (the "PRC") | <b>2,162,267</b>                            | 2,138,000               |
| Asia other than the PRC                    | <b>601,618</b>                              | 614,142                 |
| Europe                                     | <b>286,873</b>                              | 292,684                 |
| Americas                                   | <b>403,953</b>                              | 205,114                 |
| Others                                     | <b>48,197</b>                               | 45,963                  |
|  | <b><u>3,502,908</u></b>                     | <b><u>3,295,903</u></b> |

The following is an analysis of the Group's assets by operating segment:

|                               | <b>As at</b>            | <b>As at</b>            |
|-------------------------------|-------------------------|-------------------------|
|                               | <b>30 June</b>          | <b>31 December</b>      |
|                               | <b>2009</b>             | <b>2008</b>             |
|                               | <b>HK\$'000</b>         | <b>HK\$'000</b>         |
|                               | <b>(Unaudited)</b>      | <b>(Audited)</b>        |
| Intermediates and Bulk Drugs: |                         |                         |
| <i>Vitamin C series</i>       | <b>1,482,693</b>        | 1,386,648               |
| <i>Penicillin series</i>      | <b>2,598,996</b>        | 2,733,880               |
| <i>Cephalosporin series</i>   | <b>1,291,826</b>        | 1,252,745               |
| Finished Drugs                | <b>1,329,183</b>        | 1,186,362               |
| Others                        | <b>320,772</b>          | 187,728                 |
|                               | <b><u>7,023,470</u></b> | <b><u>6,747,363</u></b> |
| Total segment assets          | <b><u>7,023,470</u></b> | <b><u>6,747,363</u></b> |



#### 4. Profit before tax

|   | For the six months<br>ended 30 June |             |
|---|-------------------------------------|-------------|
|   | 2009                                | 2008        |
|   | HK\$'000                            | HK\$'000    |
|   | (Unaudited)                         | (Unaudited) |
| Profit before tax has been arrived at after charging (crediting) the following items: |                                     |             |
| Amortisation of intangible assets (included in cost of sales)                         | 9,726                               | 15,656      |
| Amortisation of prepaid lease payments  | 2,924                               | 2,479       |
| Contribution to retirement benefits scheme, including those of directors              | 34,873                              | 28,537      |
| Depreciation of property, plant and equipment   | 231,391                             | 218,097     |
| Staff costs, including those of directors   | 257,991                             | 239,028     |
| Loss on disposal of property, plant and equipment (included in other expenses)        | 3,589                               | 49,724      |
| Net foreign exchange losses   | 4,001                               | 20,967      |
| Research and development expenses (included in other expenses)                        | 23,847                              | 18,080      |
| Interest income   | (4,359)                             | (2,310)     |

For the six months ended 30 June 2008 and 2009, cost of inventories recognised as an expense approximated cost of sales as shown in the condensed consolidated income statement.

#### 5. Income tax expense

|                                       | For the six months<br>ended 30 June |             |
|---------------------------------------|-------------------------------------|-------------|
|                                       | 2009                                | 2008        |
|                                       | HK\$'000                            | HK\$'000    |
|                                       | (Unaudited)                         | (Unaudited) |
| The tax charge comprises:             |                                     |             |
| PRC Enterprise Income Tax             |                                     |             |
| — Current year                        | 107,493                             | 97,143      |
| — (Over)underprovision in prior years | (4,136)                             | 1,292       |
| — Tax credits                         | (39,698)                            | —           |
|                                       | 63,659                              | 98,435      |
| Deferred taxation                     | 8,390                               | 7,151       |
|                                       | 72,049                              | 105,586     |

No Hong Kong Profits Tax is payable by the Company nor its Hong Kong subsidiaries since they either had no assessable profits or incurred tax losses for both periods. Taxation arising in other jurisdictions is calculated at the rate prevailing in the relevant jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries of the Company are entitled to exemption from PRC Enterprise Income Tax starting from their first profit-making years, followed by a 50% reduction in tax rate for the next three years. In addition, pursuant to approvals granted by the relevant tax authority, certain subsidiaries of the Company were granted tax credits during the period, which were mainly derived from the following activities:

- a. Tax credit was granted on the basis that a subsidiary of the Company in the PRC has, instead of making distributions to its foreign shareholder, re-invested certain distributable reserves as capital contribution to a PRC subsidiary of the Company set up in previous years.
- b. Tax credits resulted from the purchase of plant and equipment manufactured in the PRC by certain subsidiaries of the Company in the PRC. The tax credits are calculated with reference to 40% of the cost of the qualifying plant and equipment approved by the relevant tax authority. Such credits were used to offset against current period tax charges of the relevant subsidiaries.

The tax charge for both periods represents income tax provision which has taken into account of the above-mentioned tax incentives.

On 16 March 2007, the PRC promulgated the Law of the PRC (the “New Law”) by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. In accordance with the New Law and Implementation Regulations, the tax rate of certain subsidiaries was changed to 25% starting from 1 January 2008. Those subsidiaries which are under the tax exemption and relief as mentioned above will continue to be entitled to the exemption and relief from PRC Enterprise Income Tax based on the new tax rate of 25% or the concessionary tax rate in the relevant special zone in the PRC during the concessionary period ending in 2010.

Pursuant to the approvals by the relevant tax authorities, certain subsidiaries of the Company are qualified as advanced technology enterprises in Hebei Province, the PRC for a period of 3 years from 2008 to 2010. The applicable tax rate for these enterprises is 15% for the period.

As at 30 June 2009, the Group had unused tax losses of HK\$198,699,000 (31.12.2008: HK\$107,890,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Most of the unrecognised tax losses will expire in various dates up to 2014.

Starting from 1 January 2008, the New Law requires withholding tax upon the distribution of undistributed retained profits earned by the PRC subsidiaries to the shareholders. Deferred taxation of HK\$8,390,000 (2008: HK\$7,151,000) has been provided for in the condensed consolidated financial statements in respect of the temporary differences attributable to such profits.

There was no other significant unprovided deferred tax for the period or at the end of the reporting period.

## **6. Dividends**

The directors do not declare payment of an interim dividend for the six months ended 30 June 2009 (2008: Nil).

During the period, a final dividend for the year ended 31 December 2008 of HK20 cents (2008: HK5 cents) per share was paid to shareholders.

## 7. Earnings per share

The calculation of the basic earnings per share for the six months ended 30 June 2009 is based on the unaudited profit for the period attributable to owners of the Company of HK\$532,710,000 (2008: HK\$443,952,000) and the 1,534,960,661 (2008: 1,538,124,661) shares in issue during the period.

No diluted earnings per share has been presented for the six months ended 30 June 2008 and 2009 as there were no potential ordinary shares in issue during both periods.

## 8. Trade and other receivables/Bills receivables

|                   | As at<br>30 June<br>2009<br><i>HK\$'000</i><br>(Unaudited) | As at<br>31 December<br>2008<br><i>HK\$'000</i><br>(Audited) |
|-------------------|--|--|
| Trade receivables | 901,500  | 710,355  |
| Bills receivables | 444,917  | 297,382  |
|                   | <u>1,346,417</u>   | <u>1,007,737</u>   |
| Other receivables | 228,038  | 197,739  |
|                   | <u><u>1,574,455</u></u>                                    | <u><u>1,205,476</u></u>                                      |

The Group allows a general credit period up to 90 days to its trade customers. Trade and other receivables of HK\$28,934,000 (31.12.2008: Nil) have been classified as part of a disposal group held for sale.

The following is an analysis of trade and bills receivables by age, presented based on invoice date. The analysis below includes those classified as part of a disposal group held for sale, net of allowance of doubtful debts.

|                 | As at<br>30 June<br>2009<br><i>HK\$'000</i><br>(Unaudited) | As at<br>31 December<br>2008<br><i>HK\$'000</i><br>(Audited) |
|-----------------|--|--|
| 0 to 90 days    | 1,259,611  | 963,307  |
| 91 to 180 days  | 81,658   | 41,837   |
| 181 to 365 days | 5,148  | 2,593  |
|                 | <u>1,346,417</u>   | <u>1,007,737</u>   |

## 9. Disposal group classified as held for sale

On 22 May 2009, the Company entered into an asset swap agreement (the “Asset Swap Agreement”) with China Charmaine Pharmaceutical Company Limited (“China Charmaine”). Pursuant to the Asset Swap Agreement, the Company agreed to transfer its 100% equity interest in its subsidiary, Shijiazhuang Pharma Group NBP Pharmaceutical Co., Ltd. (“NBP”), to China Charmaine and China Charmaine agreed to transfer its 100% equity interest in Hebei Hong Yuan Chemical Co. Ltd. (“Hong Yuan”) to the Company at a consideration of HK\$125,000,000. NBP is principally engaged in the manufacture and sale of pharmaceutical products, mainly butylphthalide soft capsule, a medicine for treating ischemic stroke. Hong Yuan is principally engaged in the manufacture and sale of chemical products which are raw materials for the Group’s production. Further details are set out in an announcement of the Company dated 22 May 2009.

The group of assets and liabilities of NBP constituted a disposal group which is classified as held for sale and are separately presented in the condensed consolidated statement of financial position as at 30 June 2009. NBP ceased to be a subsidiary of the Group upon the completion of the asset swap in July 2009.

The proceeds of disposal are expected to exceed the net carrying amount of the relevant assets and liabilities and, accordingly, no impairment loss has been recognized on NBP.

Major classes of assets and liabilities of NBP as at 30 June 2009 are as follows:

|  | <b>As at<br/>30 June 2009<br/>HK\$’000<br/>(Unaudited)</b> |
|--|--|
| Property, plant and equipment                                  | 141,704  |
| Prepaid lease payments (non-current)                           | 11,736   |
| Intangible Assets  | 9,801  |
| Pledged bank deposits (non-current)                            | 307  |
| Inventories  | 8,846  |
| Trade and other receivables                                    | 28,934   |
| Prepaid lease payments (current)                               | 364  |
| Bank balances and cash   | 13,988   |
|  | <hr/>  |
| Assets classified as held for sale                             | 215,680  |
|  | <hr/> <hr/>  |
| Trade and other payables                                       | 18,456   |
| Amounts due to related companies                               | 1,013  |
| Loans from a related company                                   | 8,382  |
|  | <hr/>  |
| Liabilities associated with assets classified as held for sale | 27,851   |
|  | <hr/> <hr/>  |
| Amounts due to fellow subsidiaries eliminated on consolidation | 74,952   |
|  | <hr/> <hr/>  |

## 10. Trade and other payables/Bills payables

|                | As at<br>30 June<br>2009<br><i>HK\$'000</i><br>(Unaudited) | As at<br>31 December<br>2008<br><i>HK\$'000</i><br>(Audited) |
|----------------|--|--|
| Trade payables | 628,412  | 638,593  |
| Bills payables | 451,136  | 253,409  |
|                | <u>1,079,548</u>   | <u>892,002</u>   |
| Other payables | 759,303  | 764,772  |
|                | <u>1,838,851</u>   | <u>1,656,774</u>   |

The following is an analysis of trade and bills payables by age, presented based on the invoice date. The analysis below includes those classified as part of a disposal group classified as held for sale.

|                    | As at<br>30 June<br>2009<br><i>HK\$'000</i><br>(Unaudited) | As at<br>31 December<br>2008<br><i>HK\$'000</i><br>(Audited) |
|--------------------|--|--|
| 0 to 90 days       | 943,973  | 745,560  |
| 91 to 180 days     | 64,779   | 46,094   |
| 181 to 365 days    | 24,706   | 37,208   |
| More than 365 days | 46,090   | 63,140   |
|                    | <u>1,079,548</u>   | <u>892,002</u>   |

## **BUSINESS REVIEW AND OUTLOOK**

### **Results**

The Group again reported encouraging results for the first half of 2009. Revenue and profit attributable to shareholders reached approximately HK\$3,503 million and HK\$533 million, representing increases of 6.3% and 20.0% respectively as compared with the same period last year.

### **Vitamin C Series**

The performance of vitamin C business remained strong in the first half of 2009 with the average selling price of vitamin C increasing to US\$10.66 per kg as compared with US\$7.62 per kg of the same period last year. Revenue for the first half of the year amounted to HK\$1,230 million, representing an increase of 37.8% over the same period last year. Gross profit margin also increased from 55.8% in the same period last year to 63.5% in the current period. At present, supply and demand remains stable while product prices continue to stay at high level.

### **Penicillin Series**

The selling prices of penicillin products have declined sharply since the second half of last year due to excessive production capacity. During the current period, product prices remained at low level. For the first half of the year, this business reported a revenue of HK\$801 million, representing a decrease of 25.0% over the same period last year. Gross profit margin decreased from 26.7% in the same period last year to 4.8% in the current period. Despite intense market competition, the sales volume of this product series managed to increase in the current period, maintaining the leading market position of the Group. Owing to excessive production capacity, product prices are expected to remain under pressure.

### **Cephalosporin Series**

During the current period, market conditions remained stable. However, product prices remained at low level due to excessive production capacity. With the introduction of new product “cefuroxime acid” and reduction in production costs, the performance of this business was able to improve during the current period. Revenue for the first half of the year amounted to HK\$366 million, representing an increase of 7.1% over the same period last year. Gross profit margin also increased from 9.6% in the same period last year to 11.5% in the current period. Product prices are expected to remain under pressure but the Group will continue to develop new products in order to enhance the performance of this business.

### **Finished Drugs**

During the current period, the finished drugs business maintained its growth momentum with revenue increasing by 11.5% to HK\$1,070 million as compared with the same period last year. Gross

profit margin also increased from 27.0% in the same period last year to 28.7% in the current period. The revenue generated from major products, namely amoxicillin capsules, penicillin G sodium injections, ceftriaxone sodium injections, cefazolin sodium injections and vitamin C supplement tablets “Guo Wei Kang” amounted to HK\$527 million, representing a 10.8% increase over the same period last year. Moreover, the Group launched seven new products during the current period, adding new growth drivers to this business.

The PRC government’s vast investment in improving the medical and healthcare services and expanding the medical insurance coverage provides the pharmaceutical market with good prospects. The PRC government has recently issued the “State Essential Drugs List”, and 65 existing products of the Group are included on the list. The Group believes that these products will have a greater market potential. On the other hand, the Group will continue to expand its sales network and step up its effort to develop new products, especially specialty drugs and high-end antibiotics, with the aim of developing finished drugs as one of the Group’s major profit contributors.

## **Acquisitions**

In order to enhance its product portfolio and market competitiveness, the Group entered into the following acquisitions during the year:

1. In April, the Group acquired 70% equity interest in an enterprise in Shanxi for a consideration of RMB70 million. The enterprise is mainly engaged in the manufacture of traditional Chinese medicines and intravenous infusion solution products;
2. In May, the Group acquired 100% equity interest in an enterprise in Shijiazhuang by way of asset swap. The enterprise is mainly engaged in the manufacture of chemical products used for the production of antibiotics; and
3. In August, the Group acquired 90% equity interest in an enterprise in Tianjin for a consideration of RMB148.5 million. The enterprise is mainly engaged in the manufacture of chemical intermediate — GCLE (the raw material used for the production of bulk cephalosporins).

## **FINANCIAL REVIEW**

### **Liquidity and Financial Position**

For the first half of 2009, the Group’s operating activities generated a net cash inflow of HK\$777,240,000. Capital expenditure in relation to the additions of production facilities amounted to HK\$233,982,000. As at 30 June 2009, the current ratio of the Group was 1.5, same as at the end of 2008. Debtor turnover period (ratio of the total balance of trade receivables and bills receivables to sales, inclusive of value added tax for sales in the PRC) increased from 49 days in 2008 to 63 days in the current period. Inventory turnover period (ratio of inventories balance to cost of goods sold) shortened from 106 days in 2008 to 86 days in the current period.

As at 30 June 2009, the Group had bank balances and cash of HK\$1,630,403,000 and total borrowings of HK\$1,712,555,000 (comprising bank loans of HK\$1,704,173,000 and loans from a related company of HK\$8,382,000). The maturity profile of the borrowings spreads over a period of three years with HK\$930,591,000 repayable within one year and the remaining HK\$781,964,000 repayable between two to three years. Net gearing ratio (calculated on the basis of the Group's total borrowings net of bank balances and cash over shareholders' equity) decreased from 8% as at the end of 2008 to 2% as at 30 June 2009.

42% of the Group's borrowings are denominated in Hong Kong dollars or US dollars and the remaining 58% in Renminbi. The Group's revenue is mainly either in Renminbi or in US dollars. The Group believes that its exposure to foreign currency risks is not significant but will monitor closely the currency movement.

### **Pledge of Assets**

As at 30 June 2009, the Group had pledged bank deposits of HK\$891,000 (31.12.2008: HK\$2,048,000) to banks for the acquisition of property, plant and equipment and the deposits were classified as non-current assets.

As at 30 June 2009, the Group had also pledged bank deposits of HK\$37,034,000 (31.12.2008: Nil) to banks to secure short-term banking facilities granted to the Group and the deposits were therefore classified as current assets.

### **Contingent Liabilities**

As disclosed in the announcement of the Company dated 22 February 2005, the Company and one of its subsidiaries were named as, among others, defendants in a number of antitrust complaints filed in the United States. Up to the date of this announcement, four antitrust complaints have been served on the Company and three antitrust complaints have been served on the subsidiary.

The directors and management of the Company intend to contest the claims set out in the antitrust complaints vigorously. The Group has appointed legal advisers to advise them in the legal proceedings and the outcome of the antitrust complaints cannot be reliably estimated with reasonable certainty at this stage.

Further information on the antitrust complaints is set out in the notes to the accounts in the 2009 Interim Report.

### **Employees**

As at 30 June 2009, the Group had about 10,147 employees, the majority of them were employed in the PRC. The Group will continue to offer competitive remuneration packages, discretionary share options and bonuses to staff based on the performance of the Group and the individual employee.



## **CORPORATE GOVERNANCE**

The Company has complied with the code provisions in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2009 with certain deviation as set out below.

Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Cai Dongchen, the Company's Chairman, also assumes the role as the chief executive officer of the Company. The Company believes that vesting both roles in Mr. Cai will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the Board, the Company believes that there is adequate balance of power and authority in place.

## **REVIEW OF INTERIM RESULTS**

The interim results have been reviewed by the external auditors and audit committee of the Company.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the six months ended 30 June 2009.

By order of the Board  
**Cai Dongchen**  
*Chairman*

Hong Kong, 8 September 2009

*As at the date of this announcement, the Board comprises Mr. Cai Dongchen, Mr. Yue Jin, Mr. Feng Zhenying, Mr. Chak Kin Man, Mr. Pan Weidong, Mr. Zhao John Huan and Mr. Wang Shunlong as executive directors; Mr. Lee Ka Sze, Carmelo as non-executive director; and Mr. Huo Zhenxing, Mr. Qi Moujia, Mr. Guo Shichang and Mr. Chan Siu Keung, Leonard as independent non-executive directors.*